

ABSTRACT

Kenyan sugar industry, an agricultural sub-sector, contributes 15% of the agricultural GDP and 7.5% of the national GDP. 14 out of the 15 sugar firms are located in the Western region of Kenya, of which 6 are state owned. These firms experience poor financial performance compared to other global players. Globally, Brazil records an average of 53% profit after tax, India achieves an average of 42% profit after tax. Regionally, South Africa tops with an average of 28% profit after tax as Kenya achieves an average of -24% profit after tax during 2007-2016. Kenya government negotiated COMESA import safeguard to protect the local sugar firms, reshuffled their management and has occasionally offered financial grants to them. Thus, the poor financial performance is an enigma. Miwani Sugar Company is under receivership, while Mumias Sugar Company ails. The extension of the COMESA import safeguard expires in February, 2019 putting the existence of the sugar firms at stake. Sugar firms are said to be highly leveraged. Financial leverage and economies of scale are theoretically associated with financial benefits to a firm, yet the available empirical literature has not established their influence on financial performance of sugar firms in western Kenya, but the focus has been on corporate governance strategies. Previous research on influence of financial leverage and firm size on financial performance in other industries has been marred by conflicting results leaving no idea of the sugar scenario. Theoretically, leverage level is determined by firm size thereby making financial leverage a potential mediator in size-performance relationship. However, there is no known information on the influence of financial leverage level on the relationship between firm size and financial performance of sugar firms in Western Kenya. The purpose of this study will be to analyse the mediating role of financial leverage level on the relationship between firm size and financial performance of sugar firms in Western Kenya. Specifically the study seeks to determine the effect of; firm size on financial performance, firm size on financial leverage level, financial leverage level on financial performance and to analyse the influence of financial leverage level on the relationship between firm size and financial performance of sugar firms in Western Kenya. The study will be anchored on the theories of; economies of scale to capture the varied sizes of sugar firms against their financial performance, trade-off theory to demystify leverage level and financial performance relationship, ROA and ROE to analyse the financial performance of sugar firms. Correlational research design will be used on 14 sugar firms in Western region of Kenya sampled using saturated sampling technique due to their concentration in the region. The study will use secondary data of the firms' financial statements obtained from the various firms and the Kenya Sugar Board. Panel data for the period 2007-2016 comprising 140 data points will be used. The data will be subjected to unit root test to check on stationarity. The data collection form will be used to extract the required information from the financial statements. Data will be analysed using panel multiple regression analyses to establish the relationships between firm size and financial performance, firm size and financial leverage level, financial leverage level and financial performance and influence of financial leverage level on the relationship between firm size and financial performance. The findings of the study may be of use to policy makers as they seek to formulate policy addressing the sugar industry and to other researchers with related interest in academia.